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ABSTRACT

The need for planning in higher education is more urgent today than ever before. This paper argues that planning is the only method by which colleges and universities can reasonably expect to come to terms with the financial, social, and political crises of our times. Pioneering efforts over the past generation to develop the budget as a principal planning tool must be fused with a comprehensive method for overall planning. This paper further describes the characteristics of an adequate plan and the essential steps in carrying it out. Finally it is suggested that the failure of college and university administrators to plan will only mean that someone else will do the planning for them. This could mean reliance on federal support, a dependency that could well have consequences that no one in higher education would welcome. (Author)

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Academy for Educational Development Paper Number Six

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Long-Range Planning and Budgeting at Colleges and Universities

In the mid-1950s the authors of this paper, with the valuable aid of Dr. Beardsley Ruml, established a new field of economic analysis for colleges and universities which they called the "economics of higher education." A handful of economists—Dr. Seymour Harris, then at Harvard University, Dr. Gary Becker of Columbia University, Dr. Theodore Schultz of the University of Chicago, and Dr. John Vaizey of the University of London—worked part-time on various problems in higher education economics.

As a result of their work, some data began to emerge for the first time on the planning and budgeting process in higher education. The Ford Foundation made grants for seminars at a number of colleges and published the booklet, *Needed: A Ten Year College Budget*, by Sidney Tickton, which contained a case study based on Knox College and a set of blank long-range planning forms. The forms became a guide for institutions beginning the 10-year planning process. They provided the framework around which to build long-range budget planning.*

Over the years thousands of copies of these forms have been used by colleges, some as small as Bennington College and a few as large as New York University. They have been used in all parts of the United States and in other countries, also.

Dr. Ruml, then serving as consultant to the Fund for the Advancement of Education, was the motivating influence behind the early efforts at long-range financial planning. He visualized the budget as a great management and strategy device for colleges and universities. He argued that the principles of good management applied to higher education. This meant, in part, the most effective or the best utilization of personnel, space, financial resources, and budget control.

This does not imply that someone dictates what a professor teaches in the classroom, or how he teaches it to the students. It simply means that a college or university is a corporation which lives

*Single copies of the booklet and an updated version of the blank long-range planning forms are available without charge from the Academy's Washington office.

in the corporate world and is influenced by the various factors that apply to corporations. As a result, good managers of colleges have something to learn from the good management of corporate activities, especially about planning for future activities.

Ruml suggested the budget for planning because it converted everything into dollars—people, space, endowment, curriculum, and assets. Everybody had a budget. And, in addition, a budget had to balance over a period of time or, at least, someone had to know where the money would come from.

With this in mind, Ruml persuaded a few colleges and universities to carry on some long-term financial planning. He suggested they develop a five-to-ten-year budget because policy decisions in education often take considerable time before they affect the budget picture. For example, a university may decide this year to construct a building, then undertake to raise and borrow money. The building may be completed in three or four years. But the interest and carrying charges may not appear for five, six, or seven years. And the personnel costs for that building won't show up for that many years, either. The construction of one building involves many decisions, and it is necessary to know what effect current decisions will have on the budget over the longer term.

Early studies in the economics of higher education led to investigations of how college and university budgets really operated. In many institutions, questions which should have been the easiest to handle went unanswered because the necessary data were not available. The accounting systems were "fiduciary," not analytic; that is, they were designed to ensure that funds were not misappropriated.

This was and is a very important function, of course. Many areas of government and industry have been faced with fraud and embezzlement during the past 25 years because of inadequate accounting controls, but higher education has remained practically unscathed by financial scandal because the accounting system protected the "fiduciary" nature of the whole enterprise.

But the accounting figures were relatively worthless for analytic purposes because they came from "fund" accounting. Conclusions could not be drawn from the figures; comparisons were meaningless. Yet this was all that colleges and universities had. Unless someone undertook specific institutional research, it was practically impossible at many colleges to find out where they had been, where they were, or where they were going.

What bothered educational planners most in the early days of long-range planning and budgeting was the fact that many major

decisions were being made on the basis of incomplete, frequently irrelevant data. Trustees responsible for setting policy were absolutely ignorant of the facts. Using the only data available, they did not, in fact, could not know the extent to which they were committing their institutions for years ahead. They have survived until now in many cases mainly on good luck. During the late 1950s and 1960s the upswing in business and the increased public support of higher education enabled the trustees of many institutions to bury their mistakes.

Today, nearly a generation after Ruml first became concerned about the lack of higher education planning, policymakers are still making major decisions on the basis of insufficient data. Just recently, for example, an educational policy committee for a large multi-unit university was making decisions on tenure for a considerable number of faculty members. Over 50 percent of the faculty was already on tenure; yet the committee recommended that the commitment be increased. Nobody ever asked the questions:

> What percentage of the faculty will be on tenure after we go through this process?
>
> What would happen if we had to reduce staff?

They didn't have the appropriate figures handy; no one asked for them; no one raised questions as to what might be happening to the budget outlook five to ten years in the future.

This is *not* extraordinary. Many institutions are still operating blindly when it comes to figures.

Dr. Ruml suggested colleges and universities improve future financial stability by (1) raising income, and (2) cutting costs.

On the income side, there was great success in the period, say, from 1955 to 1970. Colleges and universities, as you know, increased income of all types during this period. Leading businessmen of the time, such as Irving Olds (then of U.S. Steel), Alfred Sloan (then of General Motors), and Frank Abrams (then of Standard Oil Company of New Jersey), pushed cases through the courts which permitted large corporations to make unrestricted gifts to education. Colleges increased tuition and enrollment, cultivated new sources of revenue, and received more government funds than ever before. State institutions secured greater appropriations. Income increased on most campuses throughout the country.

In order to cut or level costs, Dr. Ruml suggested that colleges and universities (1) raise student-faculty ratios and (2) use space more efficiently. His suggestions went unheeded because:

1. Faculties wanted lower student-faculty ratios. They claimed that lower student-faculty ratios meant a better quality of education, though this certainly is a matter of debate.
2. No one anywhere really wanted better use of space. Presidents, fund raisers, donors, and government officials were all caught with their "edifice" complexes showing. They wanted buildings for every purpose at every location—and without any real regard for the future cost of amortization or plant maintenance.

The Current Picture

This, then, was the situation in the recent past. It was usually possible to increase income and thereby cover costs. There was no need to set priorities or choose between alternatives.

Beginning about 1970, a number of factors changed which affected the financial stability of colleges and universities. The changes exerted new pressures on the status and outlook for the future in higher education—pressures which can be expected to continue for the next five years and perhaps longer.

What caused the changes? There were many factors, including:

1. Inflation—at a faster rate than had been expected.
2. Unemployment—causing many people to review what they were spending money for.
3. Student unrest—influencing many disillusioned donors and legislators to put their money elsewhere.
4. Excess space—state institutions which were abreast of their construction programs for the first time in years could now accommodate most, or at least a great many, of the students that private institutions used to enroll.
5. The dip in the stock market—dampening the generous attitude of some foundations and rich donors.
6. A tight federal and state budget situation.
7. The surplus of Ph.D.s and highly trained engineers and scientists.
8. The actual closing of a number of colleges. While this possibility was often discussed in the past, it never became a hard reality. But closings during the past few years include Monticello College in Illinois; Cascade College in Oregon; Hiram Scott College and John J. Pershing College in Ne-

braska; Midwestern University in Iowa; Silvermine College in Connecticut; St. Joseph's College in Maryland; the Mills College of Education in New York; Cardinal Cushing College in Boston; and a number of others.

As a result of the changing situation, all private colleges and universities in the country seem to be caught in a financial bind. They must set new priorities, cut expenses, reduce faculty and staff, and work harder and longer.

This is a rough order for institutions which never had so many students; never paid such high salaries; never had campuses that were so well manicured. And if one listened to faculty spokesmen, the president never drove such a nice car, lived in as nice a house, and traveled in such luxury.

Nevertheless it is necessary for colleges and universities to recognize that although the present facts are grim, the future may be grimmer.

Recently the Carnegie Commission on Higher Education and the American Association of Colleges documented the plight of the private colleges. In December 1970, the Carnegie Commission reported that two-thirds of the private colleges and universities in the country were financially troubled or heading for trouble.* And the American Association of Colleges reported that half of the private colleges in the U.S. already had or were expecting deficits.**

These reports are timely and to the point for private institutions, but they understate the case. They consider only the overall totals; they deal in big numbers which gloss over the details of many chilling horror stories. As a result neither the Carnegie report nor the AAC report has persuaded the public that the situation is urgent for many individual institutions.

Today, however, there is a "nowness" that is different from the past; a "nowness" which will mean laying off a substantial number of faculty at some colleges and universities in order to cut expenditures. Attrition won't be fast enough. Saving pennies on maintenance or student services won't balance the budget. Savings on administration won't do the job either. Firing instructional staff people may.

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*Cheit, Earl F., *The New Depression in Higher Education,* A Study of Financial Conditions at 41 Colleges and Universities, Carnegie Commission on Higher Education, New York, 1971.

**Jellema, William W., *The Red and the Black,* Special Preliminary Report on the Financial Status, Present and Projected, of Private Institutions of Higher Learning, Association of American Colleges, Washington, January 9, 1971.

No one likes to face this prospect, but higher education in the future, particularly at private institutions, cannot avoid considering this possibility. Boeing would have been out of business if it had not laid off 20,000 people in Seattle. Penn Central laid off less than 5 percent during its last year as an independent corporation. See what happened to them.

People everywhere believe colleges and universities are wasteful. They don't believe that colleges really need all the money requested, and they don't have to go far for examples:

They see buildings that are empty part of the time.

They find faculty who aren't teaching very much.

They find students who don't have to work very hard.

This is a serious situation, because if people believe that colleges are wasteful this belief can be even more harmful than any actual wastefulness itself.

Future Shock

The faculties and administrators of colleges and universities don't think colleges are wasteful. They believe things are going along okay. When someone produces unfavorable reports or comments on disturbing trends, high cost figures, or big deficits, they deny the facts. They say,

"It's not serious."

"It's not important; we've gotten along so far, we'll get along in the future."

"The public is always critical."

"The more things change, the more they are the same."

Alvin Toffler's book *Future Shock* points out that this refusal to face unpleasant facts happens everywhere when dramatic change occurs. It is not unique to higher education. People become "deniers." Their strategy is to register total disbelief, to repudiate the evidence of their senses. Disaster victims, for example, often deny that a calamity has occurred. They insist that nothing has changed; that everything is the way it was before the disaster happened.

Today a college administrator has to counteract this sort of thinking. He has to focus the college family's attention on where they are going, not where they are or where they came from. And this is the very point Ruml repeatedly made a generation ago when he said:

"You've got to make projections five to ten years into the future if you're going to find out where you're going."

Compelling Reasons for College Planning

Some people have argued that higher education is changing so rapidly that any attempt to plan for the future is foolhardy. But we believe that the increased tempo of the times makes it all the more necessary to plan. Planning helps executives and trustees deal with rapid change and cope with the unexpected.

Long-range planning is often mistakenly regarded as static. Too many college administrators undertake the Herculean task of preparing a plan and then relax, thinking that the job is done. Whenever anyone asks them where the institution is headed, they take the plan off the shelf and leaf through it for an answer.

Such a procedure might have been suitable in quieter periods. But today events are moving so quickly that it is not uncommon to find administrators turning out three or four revised planning documents in a matter of a few months.

Today presidents or deans or chief business officers need a plan which:

- Measures the adequacy of key decisions. If a decision is wrong, a sound plan should increase the chance of discovering the error and of taking effective action. In this sense planning slows down the onrushing future.
- Keeps the college on a course of action even in the midst of difficult and often unpopular decisions that the plan dictates.
- Has the flexibility to permit a college to maintain a wise course, or to change that course if new conditions warrant.

Doing Effective Planning

We turn now to the question of how effective long-range planning at colleges and universities can be carried out.

1. The first essential step is a commitment to the plan by the president, the other key administrative officers, and the trustees. A plan that does not have their commitment will merely be placed on a shelf and serve no useful purpose.

The president's commitment is particularly crucial; he should pledge himself for a five-year period to carry out the plan with

whatever revisions are necessary. Of all the people in his institution, the president is the most responsible for its future life and viability. He has the major responsibility for budget and planning decisions. The faculty doesn't have it. They have the responsibilities to their professions. The board doesn't have the major responsibility, because the board is frequently not in the mainstream of activity.

A plan should thus become a contract specifying the job the president has to do and the leadership he must provide. This procedure would do away with the fuzzy methods now used by trustees and faculty to judge the performance of the president.

2. Following the commitment, the next step is to designate an administrative officer to be responsible for planning—a director of planning or a vice president. As in every other area of activity, someone has to be in charge and be held accountable.

This officer-in-charge must make certain that all segments of the college community become involved in developing the plan—the trustees, administration, faculty, students, alumni and other constituents, and the local community, among others. All these people won't be voting on the plan—but they should be heard before a plan is finally adopted.

3. The next step to be carried on under the officer-in-charge is to collect all the essential information needed to formulate an adequate plan. If personnel are not available on the campus to do this task well, outsiders should be brought in to supplement the existing staff or to provide specialized services.

4. Finally, the officer-in-charge, together with major administrative officers under the direction of the president, should formulate specific, down-to-earth recommendations and prepare a timetable for carrying them out. The recommendations should then be submitted to the trustees for modification or approval, thereby obtaining a final commitment by all concerned to carry out the plan.

The officer in charge of planning should be responsible for inspiring the adoption of a plan, reviewing its progress, and calling to the attention of the appropriate officers the need to modify the plan on the basis of experience.

Characteristics of an Adequate Plan

Among the essential elements of an adequate plan are the following:

1. *A description of the college as it now exists.* Often these facts—on students, faculty salaries, education and publications, the physical

plant, and endowment–are readily available. But they are frequently not systematically collected, codified, and analyzed. Certainly, as has already been mentioned, conventional accounting procedures do not yield appropriate information.

Creating a plan forces a college to learn about itself, and this can be enormously enlightening. Officers and trustees will discover a college's hidden strengths and weaknesses, uncover unknown facets of its operation, and, by the time the compilation is completed, know their institution far better than before. In this review process, platitudes and vague generalities are not and cannot be substituted for the facts.

2. *A clear statement of the goals of an institution which restricts its functions and does not promise to do all things for all students.* This in itself provides an extremely useful discipline for all members of the academic community. Most statements of educational goals and objectives are full of high-sounding, but generally meaningless, cliches. For example, a random sample of college catalogues and brochures will yield abundant phrases like the following:

> "Emphasis on academic excellence and the maximum maturity of the individual student."
>
> "Dedication to the highest standards of learning."
>
> "Receiving the student into the community of scholars and teachers in the tradition of university education as broadly conceived."

Every planning effort must go beyond these obscure phrases and:

> arrive at a clear set of objectives that fits the specific institution involved;
>
> be directed toward a definitive statement of the particular kind of institution that the planners envision ten to twenty-five years from now;
>
> pinpoint an institution's particular academic and social orientation in place of the high-sounding generalities of the typical catalogue;
>
> identify its constituents, its character, its students, establish its particular emphasis on teaching, research and service, or the balance among them, analyze its local community, and clarify relationships with that community and with other institutions.

Such clearly defined goals make it easier to draw up the wisest, most concrete course for future action.

3. *A set of assumptions for the future.* Making assumptions involves a valuable intellectual process. In order to have good projections there must be some good assumptions on what is going to happen in the future. No machine can help a college make the assumptions. The machines can help multiply the numbers, calculate the percentages, and estimate the probabilities. But assumptions for the future become the responsibility of the top executive staff; and that is where the work lies.

There are two kinds of assumptions about the future:

a. internal assumptions, involving developments over which the college can exercise substantial control, and

b. external assumptions, which include social and economic changes over which the college can exercise little if any control.

The first group includes factors such as the number of students enrolled, plant expansion, and faculty salaries. The second category includes such developments as rate of inflation, extent of federal support, etc.

Making assumptions may well involve taking risks. Public institutions take a particular risk in projecting estimates of state appropriations for the coming years. If the figures get out, the state legislature might give the institution some trouble.

But administrators must know, or at least have in mind, what their projections imply. They have to know what their options are. As they develop the assumptions, they are forced to begin to think deeply about the factors which will determine the college's future.

4. *The projection of an educational program with methods for carrying it out and evaluating it regularly.* This program should state clearly:

- For whom it is provided—which involves a frank statement of the kind of students who are to be admitted and how they will be selected.
- The reasons for this particular kind of program. General? Professional? Preparation for graduate schools? And others.
- The breakdown by schools, divisions, departments, and courses, with such difficult decisions as those on the size

of the institution, enrollment by levels or programs, the faculty-student ratio, minimum number of students for any offering, methods of instruction, and kinds of experiences to be offered.

- Methods for evaluating effectively the instructional and administrative personnel.
- Methods for evaluating student achievement and criteria for awarding degrees.
- Provisions for continuous improvement of the program.
- Special provisions for handling emergency situations as they arise, such as demands for black studies and other more relevant instruction, occupation of buildings by students, or other unexpected situations such as new government-support programs or capital gifts of major size.
- Procedures for continual communication between the concerned groups as the plan is put into operation.

An effective plan must also specify how existing plant facilities are to be used and what new facilities are required to carry out the plan. This involves projections for:

- The most extensive and economical possible use of existing facilities year round.
- The best use of land owned by the college but not required for educational purposes–such as leasing the land for additional income.
- Whether the college should own and operate dining and housing facilities–essentially hotel accommodations.
- New facilities to be built for the most effective and economical operation of the program.

Also, the plan must project the people required to implement it–administrators, faculty, and other supporting personnel. Is the current management capable of carrying out the plan?

5. *A statement of financial requirements to carry out the plan.* We have already discussed the extensive and insightful explorations that have been made over the past fifteen years into the area of the economics of higher education. Now even more is required to bring together the processes of academic and fiscal planning. Future program plans must be sorted out and costed out. All educational

options should have price tags attached. The dollar realities will force administrators to consider cutting back in some areas as well as advancing or expanding in others.

The income that colleges and universities have is only part of their economic problem; most institutions don't use even those dollars wisely. Proliferating courses and specialties, sacrosanct departmental fiefs, small college size, the belief that small classes are an end in themselves, aversion to technology, reluctance to cooperate on an inter-institutional or an intra-institutional basis, underuse of the physical plant—all these contribute heavily to the cost-price squeeze. And, even more important, they hold down the *quality* of learning.

This does not mean that the budget is a less useful tool than Dr. Ruml and his colleagues thought it to be. Today, as then, the budget has the merit of being a neutral medium of analysis, well understood by businessmen, trustees, and potential corporate donors. Today, as then, the budget must balance, placing valuable constraints on elaborate plans. And today, as then, the budget serves as a valuable tool for testing assumptions about future endeavors. But it has become increasingly evident that the budget is but a *part* of the planning process, and that its real effectiveness will depend upon the extent to which it is a comprehensive undertaking, bringing to bear the social and academic as well as the economic aspirations of a college or university.

A budget, short term or long, will also gain in validity if it is reviewed and revised in the light of current developments. Too often, budgets are drawn up months before the previous year's financial reports are submitted and analyzed. An incremental budgeting technique is followed which tends to add new expenses for the succeeding year on top of shaky budgeting information from the previous year.

If wiser decisions are made, adequate information will have to be received earlier. Monthly reporting of expenditures by budget categories will be required. If this is done rapidly and by a conscientious business manager, the next year's budgeting procedure and long-term budget projections will be much more reliable.

6. *A provision for an adequate and regular accounting to the constituency of the college on how well or poorly the institution is doing in carrying out the plan.*

- The president's projections at the beginning of each year of what should be accomplished that year.

- An annual published report by the president of what has been accomplished. Even the philanthropic foundations have recommended this procedure for themselves.
- A review of the president's effectiveness at the end of five or seven years as recommended by President Kingman Brewster of Yale.

7. *Finally, a framework is needed within which to work on long-range budgeting. This framework is a long-term planning document based on the budget.* Basically this is a financial projection. Accompanying should also be an academic projection and space and construction projections.

As indicated earlier, the booklet, *Needed: A Ten Year College Budget*, presents a simple but important tool to facilitate the budgetary process along with blank worksheets which provide figures that are needed for long-range planning.

There are many other forms available. They don't have to be organized in the same manner as the forms in the booklet. But they do have to provide for various kinds of projections upon which to make plans and set priorities. And they should require a relatively small number of key pieces of information tied into a budget.

Someone Must Plan

It is clear now that unless institutions make their own plans, someone else will do the planning.

Everyone is familiar with the expanding federal commitment to higher learning. Federal dollars are, and will continue to be, most welcome to those concerned with improving the quality of educational institutions. Without federal support, colleges could not afford as many new buildings and curricular programs or as much student aid.

But along with the welcome dollars comes a tendency toward federal control. This is not surprising since Washington, as it pours several billion dollars into higher education, certainly has a right to know how the money is spent. Yet federal control has its dangers. It might be accompanied by pressure for standardized institutions that couldn't provide for the diversity of students and institutional needs in America. There is also reason to fear the paralysis which could result from a massive higher education bureaucracy extending across the country.

This threat to diversity in higher education does not lie only in the future. Current and historical lessons substantiate our concern. For

example, in the first two decades of the 1800s, when Union College was trying to build its New York campus, the President made repeated and passionate pleas to the legislature for funding. He was assured receipts from lotteries. In return for this assurance, the college's trustees granted the legislature the right to name 50 percent of the trustees of the college–long before the state paid off.

Recently a new scheme from Albany suggests that the Governor ought to appoint at least 50 percent of the members of the Board of Higher Education in New York City since the state supplies 50 percent of the money for City University.

The parallel is striking and the message is clear.

The best way for colleges to avoid these dangers is for them to do their own planning, to vigorously chart their own futures. Power flows into a vacuum. *If* the colleges allow a vacuum of planning to develop, they can be sure that someone will take advantage of it. But if colleges create sound plans, they will be in a much stronger position to resist encroachments from the outside.

Conclusion

The need for planning in higher education is more urgent today than ever before. This paper argues that planning is the only method by which colleges and universities can reasonably expect to come to terms with the financial, social, and political crises of our times. Pioneering efforts over the past generation to develop the budget as a principal planning tool must be fused with a comprehensive method for overall planning.

This paper has described the characteristics of an adequate plan, and the essential steps in carrying it out. Finally, this paper suggests that the failure of college and university administrators to plan will only mean that someone else will do the planning for them. This could mean reliance on federal support, a dependency which could well have consequences that no one in higher education today would welcome.

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